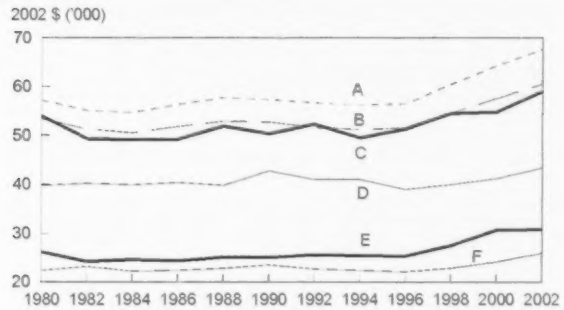
2002 income: An overview

Ginette Gervais and Renée Béland

After five consecutive years of growth, after-tax income levelled off in 2002

After five consecutive years of growth, the after-tax income of families remained virtually unchanged between 2001 and 2002. After adjusting for inflation, the average after-tax income of families with two or more people stood at $60,500 in 2002, compared with $60,300 in 2001. This lack of growth was in contrast to average annual increases of 3.2% between 1996 and 2001.

Average after-tax income by family type



A Two-parent families
B Economic families of two or more
C Married couples
D Senior families
E Female lone-parent families
F Unattached individuals

Sources: Survey of Consumer Finances, 1980 to 1995; Survey of Labour and Income Dynamics, 1996 to 2002

Data sources and definitions

The longitudinal **Survey of Labour and Income Dynamics** began in 1993. The **Survey of Consumer Finances** was an annual supplement to the Labour Force Survey.

Market income (income before taxes and transfers): total earnings (from paid employment or net self-employment), investment income, private pension income, and 'other income.' It excludes government transfers.

Government transfers: direct payments to individuals and families by governments: Old Age Security, Guaranteed Income Supplement, Spouse's Allowance, C/QPP, child tax benefits, Employment Insurance, workers' compensation, GST/HST credits, provincial/territorial refundable tax credits, social assistance payments, and other government payments.

Total income: income from all sources before federal and provincial taxes.

After-tax income: total income minus income taxes.

Economic family: two or more persons living together and related by blood, marriage, common law, or adoption.

Low-income cut-off: the level below which a family may be in straitened circumstances because it spends at least 20 percentage points more of its income on necessities (food, shelter and clothing) than the average family of similar size. Cut-offs are defined for seven family and five community sizes.

Low-income rate: proportion of persons or families below the low-income cut-off.

Family income is correlated with economic conditions. After reaching a peak at $53,900 in 1989, average family income declined through the recession of the early 1990s, staying at less than $52,000 until 1996. After that, it rebounded in step with the recovering economy.

Average after-tax income for unattached individuals in 2002 stood at $25,900, up 2% from 2001 and more than 17% from 1996.

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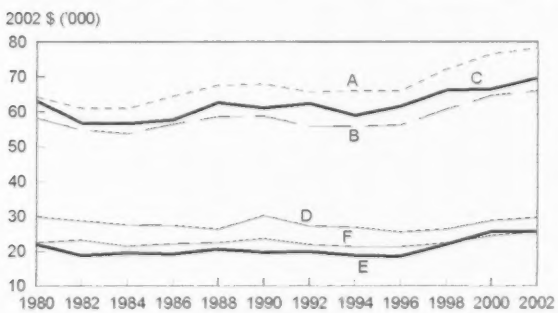
The three main components of after-tax income remained relatively stable in 2002

The minuscule growth of after-tax income between 2001 and 2002 was due to the lack of significant change in any of its three components—market income, government transfers and personal income taxes.

Market income—wages and salaries, net self-employment earnings, and income from investments and pensions—represents the lion's share of family income, particularly for non-elderly families. Whereas market income increased an average of 2.7% annually between 1996 and 2001, it decreased marginally in 2002 to stand at $65,900 for families of two or more.

Government transfers cover a range of programs, including Employment Insurance (EI), Old Age Security, and child tax benefits. Like market income, government transfers were virtually unchanged between 2001 and 2002. Transfers to families of two or more averaged $7,300 in 2002, down from their 1996 level of $7,900.

Average market income by family type



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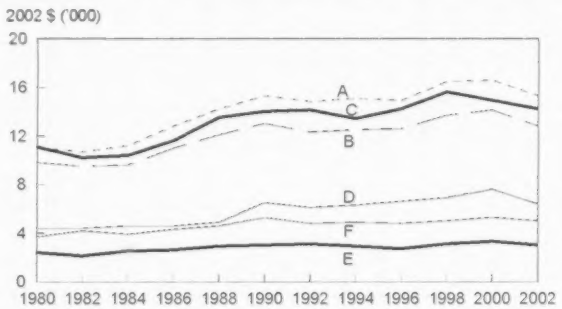
The number of families receiving Employment Insurance benefits increased by 8.4% in 2002, following an 11.2% increase in 2001. Average EI benefits climbed from $5,500 to $5,900, mainly because of program changes that expanded parental benefits.

Government transfers by family type



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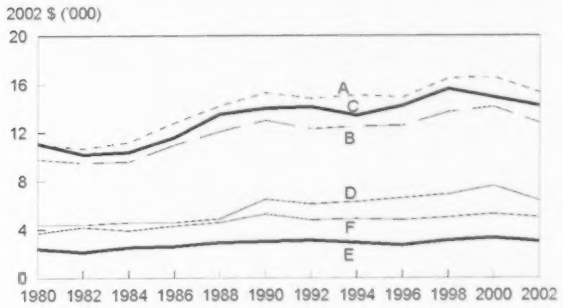
Families of two or more paid an average of $12,800 in personal income taxes in 2002, about $300 less than in 2001 after adjusting for inflation. This decline of about 2.3% came on the heels of a 7.1% decrease in 2001. These two consecutive decreases resulted from modifications to federal and provincial income tax, which included higher exemptions and income threshold levels as well as cuts in tax rates. The implicit tax rate for families was 17.4% in 2002, down from 17.8% in 2001.

Average income tax by family type



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Average market income among persons living alone in 2002 stood at $25,600, only 1.6% more than in 2001 but 20.2% more than in 1996. On average, they received $5,300 in transfers and paid $5,000 in income taxes in 2002. Their average transfers were down 3.6% from 1996, while average income taxes paid were up 4.2%.

The low-income rate among families of two people or more rose slightly in 2002

Low-income cut-offs are based on family size and community size. In 2002, a family of four living in a city of 500,000 or more would be considered in low income if their total after-tax income was below $30,576. For the same family living in a rural area, the cut-off was $20,047.

After five consecutive years of decline, reflecting strong economic performance, a lowering of income-tax rates, and a rise in after-tax income, the proportion of families living in low income rose slightly in 2002 to 7.0%, or an estimated 605,000 families. Despite this slight increase, the rate remained well below the 10.7% in 1996 (870,000 families).

Despite the change in the proportion of low-income families, their financial situation did not really change over the six years. In 2002, they would have needed, on average, $6,900 more in after-tax income to reach the low-income cut-off.

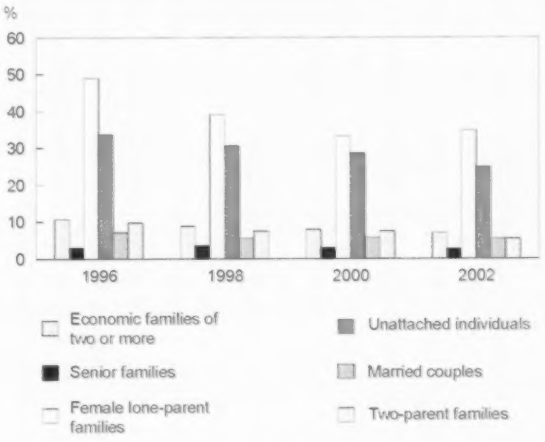
Among people living alone, 25% were living in low income in 2002, down from 34% in 1996 and 26% in 2001. These people would have needed $5,200 more in after-tax income, on average, to reach the low-income cut-off in 2002.

Income inequality among families remained stable

One measure of income inequality is the ratio of average market income received by the 20% of families with the highest incomes compared with the 20% of families with the lowest incomes.

In 2002, this ratio was about 11.7 to 1, which means that families in the top quintile received $11.70 in market income for every dollar received by families in the lowest quintile.

Low-income rate by family type



Sources: Survey of Consumer Finances, 1980 to 1995; Survey of Labour and Income Dynamics, 1996 to 2002

However, taxes and transfers moderated the differences between quintiles. In 2002, after taxes and transfers, the one-fifth of families with the highest incomes received $5.20 for every dollar received by the one-fifth of families with the lowest incomes. This ratio remained stable at about 4.8 to 1 for several years up to 1995. It then rose in 1996 and 1997 to 5.3, subsequently fluctuating between 5.2 and 5.3.

After-tax income down among female lone parents

In contrast to average income for other types of families, income for female lone-parent families was down in 2002. On average, the after-tax income for the estimated 500,000 female lone-parent families declined from $32,500 in 2001 to $30,800 in 2002, mainly because of a drop in their average market income from $27,300 to $25,600.

However, over a longer term, income increases among these families were among the highest between 1996 and 2002, due in large part to an upsurge in the number of female lone parents recording employment gains.

As a result, the annual average rate of increase in market income for female lone-parent families was 5.5% between 1996 and 2002, one of the largest increases among all family types. Consequently, the 2002 after-tax income of female lone parents was much higher than in 1996, when it was $25,300.

In 2002, some 500,000 female lone-parent families, or 34.8%, were living in low income (after tax), up from 30.1% in 2001. This was the first increase in the low-income rate for these families since 1996 when it peaked at 49.0%.

Low-income rate among children down for sixth straight year

Although the change is not significant, based on after-tax income, the low-income rate among children under the age of 18 declined for the sixth consecutive year in 2002.

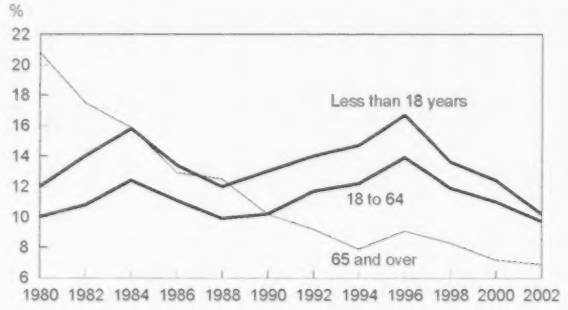
Based on family after-tax income, an estimated 702,000 children, or 10.2% of the total, were living in low-income families, down from 786,000 in 2001(10.4%).

The proportion of children living in low-income families has declined steadily since 1996, when it peaked at 16.7%. The decline follows an overall improvement in the economy during the late 1990s.

Continuous growth of after-tax income for senior families

Among senior families (major income recipient aged 65 or older), after-tax income was estimated at $43,400 in 2002, up from $39,000 in 1996.

Low-income rate by age



Sources: Survey of Consumer Finances, 1980 to 1995; Survey of Labour and Income Dynamics, 1996 to 2002

Net after-tax income among senior families grew steadily between 1996 and 2002, primarily as a result of an increase in their market income. During this time, after-tax income for senior families increased 11%, compared with 18% for younger families.

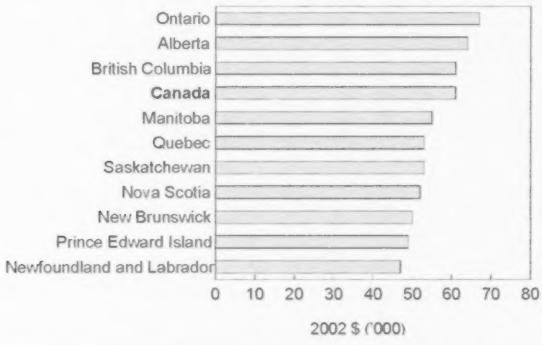
In 2002, senior families received an average of $20,200 in government transfers, accounting for 41% of their total income before taxes.

Provinces: After-tax income remained stable in most cases

Families of two or more recorded at least marginal increases in after-tax income in most provinces in 2002, with a few notable exceptions. In Alberta, after-tax income declined from $65,600 in 2001 to $64,300 in 2002. On the other hand, the proportion of low-income families in Alberta also fell, from 5.9% to 4.8%. The biggest gain was in Nova Scotia, where after-tax income for families of two or more rose from $49,800 to $51,500.

In the provinces, average market income among families did not change significantly between 2001 and 2002. However, increases were recorded between 1996 and 2002 in every province, ranging from 6.9% in Prince Edward Island to as high as 22.8% in Nova Scotia.

Average after-tax family income by province



Source: Survey of Labour and Income Dynamics, 2002

Average income tax paid in 2002 by families decreased by 2% or more in six provinces. The greatest change was in Nova Scotia, where it was up approximately 12%, or $1,200, over the $9,900 paid in 2001.

This increase may be partly due to Nova Scotia's tax system remaining virtually unchanged, whereas average market income among families—the bulk of which is taxable—increased by an average 6.0%. Nova Scotia has not increased its basic personal exemption or the exemption for eligible spouses or dependants, nor has it implemented statutory increases in income tax rates over 2001 rates.

In Manitoba, meanwhile, a relatively significant (5.7%) decrease in average income tax paid by families in 2002 may be attributed to changes to that province's tax system, including higher exemption amounts, a statutory decrease in the income tax rate for the second bracket (from 16.2% to 15.4%), and an increase in the income threshold for the third bracket (from $61,089 to $65,000). Even though Manitoba saw an increase in market income, changes to the tax system appear to have largely offset any effects the increase may have had.